

Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Own funds
Article	470
Paragraph	2
Subparagraph	b
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	N/A
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	10% limit for significant investments (for threshold exemptions determination purposes)
Question	<p>Could the EBA confirm that in a situation where the total amount of significant investment in a financial sector entity (the direct, indirect and synthetic holdings by the institution of the Common Equity Tier 1 instruments of that entity) exceed 10% of relevant Common Equity Tier1 items, such amount can be included in 15% threshold exemptions up to 10% of this amount and remaining surplus above 10% limit will be treated as a deduction of CET1. Example in background.</p>
Background on the question	<p>Example: 15% of CET1 = 150; 10% of CET1 = 100; Significant investment = 120; Deferred tax assets = 10 Result: Amount taken account in 15% threshold = 110 (Significant investment = 100 and Deferred tax assets = 10) Amount treated as RWA with 250% weight = 110 Amount deducted from CET1 = 20 (Significant investment = 120-100).</p>
Final answer	<p>Article 470 of Regulation (EU) No 575/2013 (CRR) allows institutions not to deduct from relevant Common Equity Tier 1 (CET 1) items those items laid down in Article 470(2)(a) and (b) (i.e. deferred tax assets (DTAs) that are dependent on future profitability and arise from temporary differences and</p>

significant investments in a financial sector entity (SFIs)) where such items in aggregate are equal or less than 15% of the relevant CET 1 items. The amount eligible to be included in the 15% threshold exemption are those amounts up to 10% of the relevant CET1 items for each of the referred DTAs and SFIs.

Therefore, the applicable percentage of the following amounts shall be deducted from CET1 items:

1. the amount of the abovementioned DTAs that exceeds the 10% of the relevant CET1 items;
2. the amount of SFIs that exceeds the 10% of the relevant CET1 items;
3. the aggregate amount of the sum of SFIs and the referred DTAs that are not deducted in accordance with (1) and (2) that exceeds the threshold of the 15% of the relevant CET1 items

The amounts under the abovementioned deduction thresholds shall be risk weighted at 250%. However, the amount of SFIs not deducted and that are part of the trading-book business of the institution shall instead be subject to the requirements for market risk (as per Part Three, Title IV of the CRR).

Depending on the applicable percentages envisaged in Article 478 of the CRR to the amounts above the abovementioned deduction thresholds, the residual amounts shall be treated according to Article 472(5) or 472(11) of the CRR, as applicable.

From 1 January 2018 onwards, the relevant items will be subject to the treatment set out in Article 48 of the CRR.

Link

https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_205

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